THE WORLD'S LARGEST LOAN.

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THE number of people in the world to whom 1000 million pounds means anything more than 100 million pounds was, before the war, probably small. But just as the difficulties of commerce in war-time have taught most of us more about the laws of supply and demand than many a text-book, so the immense cost of modern war has made many folk familiar with financial operations larger than would have been thought possible not so long ago. Less than twenty years have passed since the success of the British Government in raising 30 million pounds by a single loan operation was the wonder of the world's financial markets. Now, in the year of grace 1917, the British Chancellor of the Exchequer is able to announce that after two and a half years of exhausting war 1000 million pounds have been raised in thirty days, and his hearers can only greet the news with "loud and prolonged cheers." One might have expected the sedate gentlemen who compose the British House of Commons at least to stand on their heads or dance on their immaculate silk hats. But "loud and prolonged cheers" was the limit of the House of Commons' enthusiasm. It may therefore be well to examine the nature of the third British War Loan, the largest operation of credit in the world's history, in order to see whether this enthusiasm was justified and why even the stolid ranks of the House of Commons "could scarce forbear to cheer."

THE FIGURES.

First, one may analyse the figure of 1000 million pounds, which, as announced by Mr. Bonar Law, was, in round numbers, the total amount subscribed by British investors during the thirty days for which the application lists to the new loan were open. The figure was made up as follows :—

Cash applications at Bank of England	£820,000,000	
Cash applications at Post Office ..	30,000,000	
		£850,000,000
Cash applications for War Savings Certificates	£20,000,000	20,000,000
Treasury Bills discounted for application to New Loan....	130,000,000	130,000,000
		£1,000,000,000

The cash applications for the loan itself, 850 millions, require no comment. One can only add that, though payment could be

made by instalments reaching to the end of May, an abnormally high proportion of the total was paid up in full. As to this point no precise figures are yet available from an official source, but the bankers through whose hands the bulk of subscriptions pass are unanimous in reporting that the amount of this loan paid up in full on application was higher than they have experienced in any previous loan of importance, British or foreign, with which they have had to deal. The amount of 20 million pounds "cash applications for War Savings Certificates," though not actually representing subscriptions to the loan, is made up of the money lent by individuals too poor to subscribe the minimum amount receivable for the loan itself as a response to the appeal made to their financial patriotism. These "War Savings Certificates" are in the form of 15s. 6d. bonds, repayable in five years at £1, not bearing interest during their currency.

TREASURY BILLS.

Finally, we see an amount of 130 million pounds for "Treasury bills discounted for applications to new loan." This perhaps requires some further explanation. The British Government had, between the issue of its second and third war loans, been financing itself by the issue of Treasury bills of three, six, or twelve months' currency, at a rate of discount of 5 or 5½ per cent. The total of these bills outstanding had at one time reached a very large amount, of an average currency of four months. When the Government came to issue the new loan it seems to have said to itself something like this: "We have outstanding a large amount of short Treasury bills. Most of the holders thereof are banks, financial houses, or manufacturers who have bought these bills as a necessity for their business. Some, however, could manage to lend their money for thirty years, which is the currency of our new 5 per cent. loan. How can they be enabled to melt their Treasury bills in order to find money for the new loan? The banks whose depositors are withdrawing their funds in order to subscribe to the loan can hardly be expected also to buy the bills. Even the discount houses, whose special business it is to buy bills, cannot absorb a very large amount now, for they too will be losing their deposits for subscriptions to the loan. Very well. We will arrange ourselves to discount these bills, which are already our liability at 5 per cent. Thus those holders who wish to do so will be able to obtain liquid cash for subscription to the loan and we shall rid ourselves of obligations to repay money in four months in return for the obligation to repay in thirty years." This being the way of it, the Chancellor of the Exchequer might have felt justified in including the Treasury bills so discounted with the other new money. But he evidently, being a business man originally himself, preferred to have no doubts about the matter, so he

returned the proceeds of the loan obtained in this way under a separate heading.

One more point should be made clear. When the new loan comes to be dealt in by the Stock Exchange it will be found to amount in all, not to 1000 million pounds, but to over twice that amount. The additional 1000 millions or so is made up of earlier loans which carried the right of conversion into the new issue. There was something under 900 million pounds of 4½ per cent. Loan of 1915, subscribers to which were promised the right to convert into any succeeding war loan. The bulk of them naturally did so. In addition, holders of about 230 million pounds of 5 per cent. Exchequer Bonds who also had this right of conversion exercised it, and in consequence the State exchanged a short liability for a long one, at no higher rate of interest. But these conversions have nothing whatever to do with the "new money" referred to above, being matters of unqualified right based on earlier contracts. Thus the figure of 1000 millions of new money can be described without qualification as the net result of the great loan.

COMPARISONS.

But figures like these, interesting as they are to the present writer and other practical bankers, are of greater value to the general public if set out in some sort of proportion to other loans and to the wealth and population of Great Britain and other countries. Let us therefore compare the loans issued by England during the present war.

British War Loans.

	Amount.	Number of Subscribers.
1st War Loan	£350,000,000	Not stated
2nd ,, ,, ...	616,000,000	1,100,000
3rd ,, ,, ...	1,000,000,000	5,289,000

German War Loans.

1st War Loan	£224,000,000	1,177,000
2nd ,, ,, ...	455,000,000	2,691,000
3rd ,, ,, ...	608,000,000	3,992,000
4th ,, ,, ...	538,000,000	5,279,000
5th ,, ,, ...	535,000,000	3,809,000

From these figures we see that each successive British loan has shown an improvement over its predecessor both in the amount and in the number of subscribers. The Germans reached their high-water mark as to amount in their third loan, issued just after their successes against the Russians in the year 1915. By including amounts from one shilling upwards their fourth loan showed a record, for them, in the number of subscribers. This record, however, was beaten by the British in their third loan, though the minimum amount that could be subscribed

in that case was not one shilling but fifteen shillings. Moreover, it should be recalled that the population of Germany is, roughly, half as large again as that of Great Britain, so that in this respect also the comparison is more in favour of the British than is shown by the bare figures given above. In all these calculations the German mark is taken at the nominal equivalent of twenty to the pound sterling, but no allowance is made for the fact that the mark shows in neutral countries (New York for instance) a depreciation of 21 per cent. compared even with the English sovereign, so that one might fairly for purposes of comparison reduce the figures that relate to Germany to four-fifths of their nominal amount.

IN RELATION TO WEALTH.

Another way of helping oneself to grasp the meaning of these huge figures is to compare them with some of those relating to the wealth of countries involved. The figure of 870 millions cash contributed to the last British loan represents a little less than £20 per head of the population—men, women, and children. Including Treasury bills discounted, it is equal to £21 per head. The sum of 535 million pounds realised by the last German war loan is equal to just about £8 per head. Before the war the British people paid their Government about 200 million pounds a year by way of taxation. During the current financial year they have paid taxes to the tune of over 500 millions. But, despite this increased burden of taxation, the British Government has been able in a month to raise 1000 millions by way of loan, or five times the amount of the taxation raised in a year before the war. Another way of measuring the extent of popular applications for the loan is to consider them in relation to the deposits of English, Scotch, and Irish banks. These amounted on January 1st, 1917, to something like 1670 million pounds. Thus, if we ignore the Treasury bills discounted to subscribe for the loan and the amounts subscribed through the post-offices by persons who presumably kept no banking accounts, the amount of cash subscribed was equal to one-half the deposits in purely British banks. One bank, with 174 millions of deposits, lost 82 millions of them in applications to the war loan. Thus, even if applications from foreign and colonial banks were substantial, it would seem, to judge by this example, that not far short of half of the current and deposit accounts kept by the banks was taken out to subscribe to the loan in cash. Again, one may compare the amount subscribed to the loan with the estimated total wealth of the British nation (as distinguished from the British Government) before the war. Estimates of such wealth are matters of extreme difficulty, and must be taken as estimates and nothing more. Various independent economists of high standing in Great Britain, America, and Germany have, however, attempted such estimates, and they agree moderately well among

themselves. Following their guidance, one feels that the annual income of the whole British nation before the war was about 2500 million pounds. Since then the rise in prices may have caused an increase perhaps to 3200 millions or so. But, leaving that aside, it would seem that the amount subscribed to the last British war loan was equal to 40 per cent. of the total income of the nation before the war, and at the latest estimate to 30 per cent. of the aggregate national income at the time of the loan's issue. And this after Great Britain had been at war for two and a half years, and when the Government's direct expenditure on the war had reached the figure of $5\frac{3}{4}$ million pounds a day.

One more comparison. Taking the basis of population, the United States would have to provide 2000 million pounds by way of loan to equal the effort just made by the British investor. If the United States' existence were threatened as seriously as are the interests of civilisation in Europe now no doubt the United States would raise this sum. But American business men have only to put the question to themselves what they could in fact accomplish in one effort of this kind, helped on as they would be by the immense war profits made since 1914, to appreciate the magnitude of the effort just made by Great Britain and the extent of the success just achieved.

A POPULAR SUCCESS.

Before concluding it may be well to return once more to the nature of subscriptions to this latest British war loan. It was shown above that each of the British war loans showed an improvement on its predecessor in regard to the amount subscribed and the number of individual subscribers. This improvement has been in fact, as regards the amount subscribed, greater than shown in the figures. The 350 millions subscribed to the first loan included direct applications from the English banks of 100 million pounds. These same banks contributed direct 200 to the 600 million pounds realised by the second loan. Moreover, the figures obtained from this second loan were swollen by the fact that subscriptions carried with them the right to convert, at a relatively good price, older irredeemable British stocks such as Consols. The amount so converted was naturally not included in the total of 600 millions odd subscribed. But undoubtedly part of that amount was subscribed by folk who wanted not so much an investment as a chance of escaping some of the inevitable depreciation on older irredeemable stocks. In the case of the new loan neither of these factors operated. The banks were advised not to subscribe further to long-dated investments like the new loan, but to keep their funds liquid for financing the trade of the country after the war, which is their proper business. The banks did their share, as Mr. Bonar Law, the Chancellor, said, by inducing their customers to subscribe and by advancing them, where necessary, sums sufficient to enable them to anticipate future savings in order to subscribe

to the loan. Thus it seems fair to describe the loan as a success not of financiers but of the people and of the genuine investor.

The popular nature of the success obtained by the loan may indeed seem the most striking thing about it. Before the issue bankers were saying that nothing less than 6 per cent. interest would prove really attractive; but the loan was issued at 5 per cent. Many of the best financial experts, even the Chancellor of the Exchequer himself, considered that to obtain 600 million pounds of new money would have been a striking success. It is now shown how far they fell short of the mark, and no one is better pleased than they. Moreover, no methods of compulsion were applied. Even the German method of paying part of official salaries in war loan was not followed. The appeal to the investor was made from the platform and the pulpit, but more particularly through the Press. The advertisements allowed no one to forget his financial duty. One note characterised them all. The attractions of the loan as an investment were duly set out, but the main appeal was to the people's patriotism; we have seen the result. It is a notorious, if queer, characteristic of human nature that a man who will willingly give his life for his country is often reluctant to part with his money for the same cause. Most investors are men with others dependent on them, which may perhaps explain this attitude. If they have any doubts about the security or object of a loan, no rate of interest, hardly even appeals to patriotism, will in any country attract a really large sum of genuine new money. But when men are thoroughly convinced of the justice of their cause and the security of their country's credit they do not hold back. The result of the third British war loan has shown that the British investor is convinced on both these points. The extent of that conviction may well be one of the causes of the ease with which England, a belligerent nation, is able to maintain its credit and the value of its currency abroad. London, the centre of international finance, would seem to have no doubts about the ultimate result of the war or about the moral issues involved in that result. It knows that the removal of the German menace to the world is as necessary to the security of peaceful commerce as it is to the highest ideals of civilisation. This is the faith of the investors of England; and they have shown the reality of their belief not by words alone, but by the result of their latest and greatest financial effort.

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